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Economic report on Africa 2004: unlocking Africa's potential in the global economy

Overview

Setting the scene for the successful integration of Africa into the global economy

After 50 years of very significant progress, the future of the multilateral system of trade negotiations is currently surrounded by great uncertainty. The collapse of the fifth Ministerial Conference of the World Trade Organization in Cancún, Mexico, in 2003 has put pressure on the countries of the Organization for Economic Cooperation and Development (OECD) to reduce agricultural subsidies and other domestic support measures that distort global trade and contribute to the marginalization of Africa from the international trading system.

The present report takes the view that OECD trade policies represent a serious constraint to Africa's integration in the global economy. African exports have been handicapped by industrial country policies such as tariff escalation, tariff peaks and agricultural protectionism. At the same time, the report argues that serious improvement is required in internal conditions, in particular on the supply-side, if Africa is to improve its position in the international economy. Weak infrastructure, poor trade facilitation services and the lack of physical and human capital pose a major impediment to export sector development. The report thus takes an introspective look at what Africa needs to do to put its house in order so as to benefit from existing and future opportunities in the global trading system and addresses fundamental issues regarding pending reforms for African policy makers.

If progress is to be made, Africa needs to make a concerted effort to reform its own economies through diversification of its productive structure and the adoption of more proactive policies for the integration of the continent into the global economy. With these objectives in mind, the Economic Report on Africa 2004 is a contribution to the debate on how to strengthen the continent's economic performance in areas such as energy policy, trade facilitation and competitiveness.

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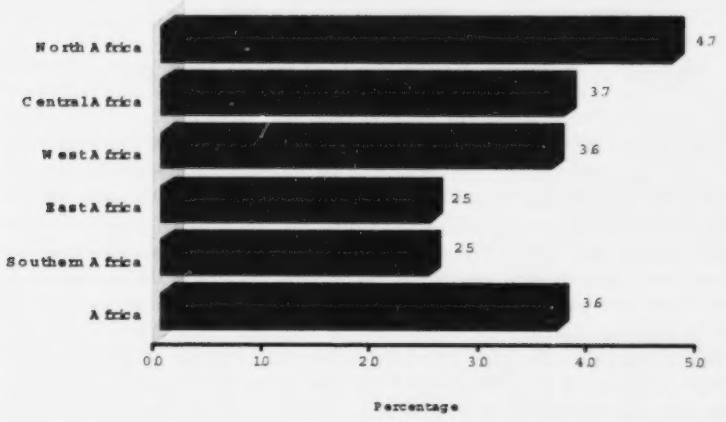
I. Economic performance: improving, but still insufficient

1. Despite insufficient progress towards fulfilling the Millennium Development Goals, and the persistence of serious political, social and economic problems in Africa, the overall message emanating from the report is an optimistic one. Contrary to popular impressions, in recent years, since the lost decades of the 1980s and 1990s, the continent has been making progress. In 2003, Africa was the second fastest growing region in the developing world, behind Eastern and Southern Asia. Higher oil prices and production, rising commodity prices, increased foreign direct investments and good macroeconomic fundamentals, backed up by good weather conditions underpinned this high growth. As a result, growth in real gross domestic product (GDP) was 3.6 per cent in 2003, compared to 3.2 per cent in 2002, with North Africa putting in a particularly strong performance (of 4.7 per cent). West and Central Africa also exhibited respectable growth rates above 3.5 per cent. East and Southern Africa, in contrast, registered paltry growth of 2.5 per cent (see figure 1).

Figure 1
North Africa tops subregional economic performance in 2003

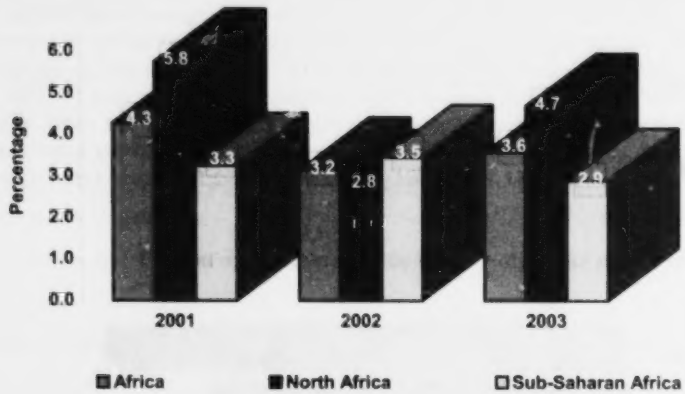


2. In 2003, the African continent, in aggregate, continued to exhibit good macroeconomic fundamentals. Fiscal deficits have largely been kept under control, despite the challenge faced by many countries in balancing increased spending on poverty reduction, as set out under their poverty reduction strategy papers and to preserve macroeconomic stability. Inflation rose slightly, to 10.6 per cent, compared to 9.3 per cent in 2002, reflecting higher food prices caused by poor weather conditions in some parts of Africa, higher oil-import prices and currency depreciation in several countries. The regional current account deficit fell from 1.6 per cent of GDP in 2002 to 0.7 per cent of GDP in 2003, driven by robust oil and commodity prices and high worker remittances.

3. On the downside, there has been a significant increase in the dispersion of growth rates, with seven African economies experiencing negative growth rates; in 1999 not one country registered a negative growth rate, and only one in 2000. Moreover, when compared with the growth figures for 2001 and 2002, it becomes

clear that there has been a slight deterioration in aggregate economic performance for Sub-Saharan Africa, down from 3.5 per cent in 2002 to only 2.9 per cent in 2003 (see figure 2).

Figure 2
Rates of economic growth, North and Sub-Saharan Africa, 2001-2003



4. It should also be borne in mind that these are not per capita figures. Standing currently at 2 per cent and 2.2 per cent respectively, both North and Sub-Saharan Africa currently display the highest rates of demographic expansion in the world, more than double the world average of 1.2 per cent. Thus the real per capita growth rates for North Africa and Sub-Saharan Africa in 2003, at approximately 2.7 per cent and 1.7 per cent, respectively, are clearly inadequate to achieve the Millennium Development Goals for poverty reduction. The recent establishment of a new Commission for Africa, launched by British Prime Minister Tony Blair, in March 2004, represents an explicit and important acknowledgement of the need to address the problem of Africa's underperformance. As the Executive Secretary of the Economic Commission for Africa, K. Y. Amoako, recently commented:

> "The international community and Africa have agreed on the central importance of a partnership to achieve the goals of the New Partnership for Africa's Development, but we must now focus on implementation and action; we must agree on what we can really deliver for Africa's people."

II. The continent awaits the "Peace Dividend"

5. One of the principal reasons behind the poor economic performance of African countries has been military conflicts. For example, the political crisis in Côte d'Ivoire has had a significant impact on the social and economic conditions of the neighbouring countries Mali and Burkina Faso. In the early 1990s, in the aftermath of the Cold War, many political analysts were predicting a significant "peace dividend", in reference to the resolution of many historic conflicts that had blighted the region, and the expected "dividend", a subsequent economic, political and social recovery. As

we now know, that "peace dividend" never materialized: the 1990s were the most conflict-ridden years since independence, and economic performance was lacklustre. African policy makers are keenly aware of the fact that substantial improvements in the economic and social situation of their populations are totally contingent upon the maintenance of peace. Without peace, little or nothing can be achieved.

6. In 2003, there were significant improvements in several politically unstable countries. The Government of the Sudan and its main rebel opposition took a crucial step towards a formal peace pact that would end Africa's longest running civil war. Liberia pushed its ex-president, Charles Taylor, into exile and there is hope that the civil wars in neighbouring countries will abate. In November 2003, the Government of Burundi signed a peace agreement with the main rebel group to end the country's civil war and took steps to integrate former rebels into the democratic political process. Uganda and Rwanda withdrew from the Democratic Republic of the Congo, setting the stage for reconciliation. Peaceful political transitions in Angola and the Democratic Republic of the Congo are paying off. Angola attracted substantial foreign direct investment during the year, with more to come in 2004, and GDP grew at over 12 per cent. The Democratic Republic of the Congo, on a steady path to macroeconomic stability with a single digit inflation in 2003, has made remarkable progress given the inflation rate of over 500 per cent as recently as 2000; economic growth is currently standing at over 5 per cent.

7. The continuing political instability in Zimbabwe and Côte d'Ivoire is worrisome. In Zimbabwe, political volatility has weakened macroeconomic stability, with inflation rising to 420 per cent in 2003, the fiscal deficit deteriorating to 7.1 per cent of GDP and the economy shrinking for the fifth consecutive year. In West Africa, because of its position as an important regional transport hub, the crisis in Côte d'Ivoire has resulted in sharp slowdowns in the economies of Burkina Faso and Mali. In East Africa, the persistence of low intensity conflicts (for example, those in Uganda and the Sudan) has handicapped progress in the social, economic and political fields.

8. Recent empirical research has shown that political instability is adversely affecting human development as well as GDP and export growth in Africa.[1] Clearly, until all the political actors implicated (politicians, civil society, foreign governments, international organizations) make a concerted effort to resolve these conflicts, Africa is unlikely to see a substantial improvement in its economic or human development.

III. Insufficient and inconsistent external support hinders progress

9. Central to the New Partnership for Africa's Development is the idea that, concurrent with the application of appropriate domestic reforms, Africa needs substantial external support to make its renaissance viable. At the International Conference on Financing Development in Monterrey, Mexico, in 2002, the industrialized countries made a strong pledge to increase the quantity and quality of official development assistance (ODA) flows to Africa. However, at $19.4 billion in 2001, ODA flows are still significantly below the 1990 peak value. It is estimated that there is a shortfall of between $20 to 25 billion annually in the amount of ODA required for African countries to attain the Millennium Development Goals.

10. In this regard, there are a number of underlying inconsistencies in the donor discourse. For instance, despite official acknowledgement of its central role in any development strategy, gender equality receives relatively little support, with only $81 million in ODA applied to gender-related projects for the whole of Africa. Similarly, although there has been a welcome increase in ODA directed towards tackling the AIDS pandemic, minimal support has been provided for the fight against malaria, still one of the biggest killers in Sub-Saharan Africa.

11. Tied aid is another major concern. Tied aid (that is, the requirement to purchase exports from the donor country in return for ODA) reduces the value of aid to the recipient countries by 25 to 40 per cent, by obliging them to purchase uncompetitively priced imports. Admittedly, some donors have made significant progress. The United Kingdom, Norway, Denmark and the Netherlands, for example, provided more than 90 per cent in untied aid in 2001. But some other countries continue to insist that a high percentage of aid be used to purchase exports from their own producers. This brings to the forefront an important issue, central to the present report — that it is not so much the volume of trade that is important, but rather its qualitative aspects that make a demonstrable difference from a developmental point of view.

IV. Continued difficulties on the road towards the liberalization of agriculture in the North

12. In recent years there have been a number of initiatives to improve market access for the poorest developing countries. The European Union "Everything but Arms" agreement, and the United States "African Growth and Opportunity Act" are two notable examples (see box 1 below). Preliminary evaluations of these two initiatives show modest but important gains for some sub-Saharan countries. In this sense, both initiatives set encouraging precedents for the future liberalization of industrial and agricultural markets in the countries of the Organization for Economic Cooperation and Development (OECD). However, because neither initiative involves the dismantling of damaging agricultural subsidies, they stop short of fulfilling Africa's needs if the continent's export potential is to be realized. For instance, in 2001, due to subsidies to domestic producers in the United States and the European Union, the costs of lower cotton prices to a country like Mali have been estimated at $43 million. Coincidentally, according to Oxfam, that was exactly the amount of debt relief received by Mali from the World Bank and IMF in the same year under the enhanced highly-indebted poor country initiative.

Box 1

The impact of the African Growth and Opportunity Act: some encouraging results but more needs to be done

The African Growth and Opportunity Act was signed into law on 18 May 2000. According to the web site (www.agoa.gov), "the Act offers tangible incentives for African countries to continue their efforts to open their economies and build free markets". However, because most African countries already enjoy preferential treatment owing to their status as least developed countries, for most products the preferences offered to African countries do not represent a significant improvement over the

existing GSP agreements. There are exceptions to this, of course, and for some products, such as textiles and apparel, where tariffs and quotas are higher, there are significant advantages in belonging to the scheme.

Circumstantial evidence certainly suggests that some African countries have benefited from the access agreement. For instance, under the act, South African exports to the United States of America were 45 per cent higher in 2002 than in the preceding year.[2] Nigeria, too, has been a big winner in its trading relations with the United States, accounting for more than 60 per cent of all exports under the act to the United States of America (although the bulk of this trade is related to the oil industry). There is also evidence to suggest that beneficiary countries have seen an increase in export-oriented foreign direct investment (FDI) linked to the act. For example, companies from Taiwan, Province of China, are the main investors in Lesotho's garment industry.

Nonetheless, according to the United States Department of Commerce, all this must be set against the backdrop of a 15 per cent fall in total United States imports from Sub-Saharan Africa in 2002. In fact, systematic research leads to a more sombre conclusion about the impact of the African Growth and Opportunity Act. In the first place, the benefits are limited because only "non-sensitive" products are included in the agreement. Secondly, excessively tight rules of origin and the limited list of countries admitted to benefits from the special textile preferences regime reduces the usefulness of the scheme for African textile producers. Thirdly, the regime expires in 2008, something which obviously tempers the reaction of potential investors. Finally, there is concern that the benefits of the act will be diluted as the United States Government seeks to negotiate free trade agreements with other regions such as the Middle East and Central America.

To improve the developmental and trade impact of the African Growth and Opportunity Act, it would be a positive development if the United States administration accepted some of the recommendations of the its Commission on Capital Flows, including an extension of the benefits of the act until 2018, and extended the preferences to include all products coming from Africa.

Source: Aaditiya Mattoo, Devesh Roy and Arvind Subramanian, "The African Growth and Opportunity Act and Its Rules of Origin: Generosity Undermined", World Bank, Policy Research Paper No. 2908, October 2002. UNCTAD, *Trade Preferences for LDCs: An Early Assessment of the Benefits and Possible Improvements*, New York and Geneva, 2003, and *The Least Developed Countries Report, 2002: Escaping the Poverty Trap*, New York and Geneva, 2002. United States Department of Commerce (2003) and United States Commission on Capital Flows to Africa (2003).

13. A forthcoming study by the Economic Commission for Africa in the implications of the Doha Agenda for Africa reveals the extent of the gains that might be realized by African countries if full liberalization of OECD agriculture is achieved. Using a global trade policy analysis model, a multisector, multiregional model widely used by trade analysts to examine the impact of trade policies, the study analyses three

different trade reform scenarios, capturing different degrees ("little", "modest" and "full") of trade liberalization. In the static version of the model, the study finds that full liberalization of trade would increase global welfare (income) by 0.3 per cent, but would add 0.7 per cent annually to income in the African region. Absolute gains for Sub-Saharan Africa are quite modest, however, some $704 million, when compared, for example, with the $15.86 billion gains for the 15 pre-accession member States of the European Union. The study also suggests that the gains from liberalization grow with the depth of the reforms. While North Africa benefits from all liberalization scenarios, Sub-Saharan and Southern Africa incur losses when partial liberalization is carried out. This is largely due to the impact of preference erosion, with many African countries being major beneficiaries of existing preferential trading arrangements. Partial market access reforms (the "modest" scenario) would thus increase the degree of competition they face in export markets.

14. However, when the model is modified to allow for dynamic effects, the study finds that there is a substantial increase in the benefits of trade reforms to all regions of the world. For the Sub-Saharan region, the welfare gains from full liberalization would increase from $704 million in the static model to $4.3 billion in the dynamic model. That is, the gain to Sub-Saharan Africa in the dynamic model is about six times as large as in the static model. The huge welfare gain from the dynamic model is associated with the impact of capital accumulation, a result that emphasizes the importance of complementing trade liberalization with investment enhancing policies.

15. There is potential downside of further agricultural liberalization. The findings of the simulation exercise suggest that the reforms may force countries to specialize more in the production of agricultural commodities, Resulting in the contraction of industrial activities in the region and the shift of resources into the production of commodities such as grains, sugar and cotton. Although this change in the pattern of specialization is dictated by comparative advantage, it is worrisome because excessive dependence on commodities increases the degree of vulnerability faced by the region. These findings drives home the urgency of adopting policies to promote export diversification out of primary commodities and into industrial and service industries with a higher value-added.

V. Primary commodity production: the need to diversify

16. In the past, a number of reports of the Economic Commission for Africa have analysed how Africa's heavy dependence on primary commodities as a source of export earnings has meant that the continent remains vulnerable to market vagaries and weather conditions. Price volatility, arising mainly from supply shocks, the decline in real commodity prices and attendant terms-of-trade losses have exacted heavy costs in terms of incomes, indebtedness, investment, poverty and development.[3] According to one World Bank study, in the case of African countries that are not oil exporters, the cumulative terms of trade losses in 1970-1997 represented almost 120 per cent of GDP, a massive and persistent drain of purchasing power. According to the same study, losses of that magnitude almost completely wiped out the benefits from the substantial increase in aid provided to the continent after 1973.[4] Nor has the story been much more encouraging for oil producing countries like Nigeria, Gabon or Angola: despite benefiting from massive terms of trade gains, the income derived from oil exports has not been used to

finance the necessary structural diversification of the economy and to place them on a sustainable growth part.

17. The logical policy advice stemming from this situation, both for oil-producing and oil importing countries, is that African countries need to diversify their economies away from agricultural and other primary products into sectors with a higher value-added. This suggests some kind of coherent strategy to promote diversification, in others words, an industrial policy. Some form of industrial policy is also required because of the apparent deadlock regarding negotiations within the World Trade Organization. Not only do the OECD countries seem reluctant to reduce the export subsidies for their own agricultural products, the dismantling of domestic farm support measures is currently politically untenable for most of the northern countries. The aforementioned conflict between West African countries and the United States over cotton subsidies is illustrative of the unwillingness of the OECD countries to reduce their subsidies.

18. A concerted effort towards trade diversification is therefore all the more urgent. Regrettably, since the period of structural adjustment, and against a backdrop of considerable pessimism in Africa concerning the capacity for State intervention, industrial policy has become an extremely controversial policy tool. Over the last two decades, many African countries have abandoned attempts to provide financial and technical support for domestic industry. Yet providing such support need not be so controversial:

(a) There is a strong theoretical and empirical case for selective interventions to overcome the market and institutional failures in building the capabilities required for industrial development;

(b) Many defenders of the free market and critics of industrial policy believe that the State is not capable of "picking winners". While this has, admittedly, often been true in the past, there could still be a strong justification for a more generalized industrial policy targeted at certain kinds of activities (e.g. investment, research and development, training, and so forth) rather than selective interventions to support particular industries or firms. This is indeed the path that industrialized countries like the United States have taken, with a plethora of measures to support national research and development programmes, infrastructural projects and a complicated system of tax breaks, and other incentives;

(c) Different ministries have different responsibilities regarding the needs for producing effective policies to increase the competitiveness of African economies. Coherent policies are required across ministries, including trade, employment, education, agriculture and transport.

19. Clearly, however modest the initial reforms and programmes, policies of this nature would take time to implement. For this reason, the principle of special and differential treatment continues to be of enormous importance for African countries. The industrialized countries need to be aware of the need for a generous time frame for liberalization if African economies are to be able to strengthen supply-side capacities and compete adequately in global markets.

VI. Lessons from Asia: the overriding need for industrial policy to promote export diversification

20. In Asia, where dynamic trade policies have been implemented, the experience is instructive. Using a complex combination of liberalization and control (sometimes excessive control) of the relations between the domestic economy and the outside world, Asian economies displayed robust growth. Against this backdrop, it is evident that African countries urgently need to address the problem of the lack of coherent and concerted industrial policies.

21. Early explanations of the Asian "miracle" focused on the apparent openness of the Asian economies to external markets, in contrast with the failed import substitution approach pursued in Africa. The root of Asia's success was thought to lie in State neutrality towards the economic sector, whereby the State stood by, allowing existing comparative advantage to determine the composition of production and exports, equal exchange rates for exports and imports and equality between domestic and world market prices.

22. Latterly, it has been recognized that Asia's success did not lie in State neutrality. States played an important role in fostering export competitiveness, using various mechanisms, including the maintenance of export friendly effective exchange rates and the granting of large subsidies to exporters. Trade policies were therefore part and parcel of broader national development strategies. This strategy goes very much against the contemporary paradigm concerning the merits of trade liberalization, which focuses excessively on removing the impediments to imports, but provide little guidance regarding how to strengthen export capacity and promote diversification. As the Mauritian example shows (see box 2 below) export diversification is rarely, if ever, achieved in a strictly laissez-faire policy environment.

Box 2
The case of Mauritius

The Mauritian economy has been a success story over the last two decades, witnessed by its high ranking in a number of indicators, including: the Trade Competitive Index; the Economic Commission for Africa's Institutional Sustainability Index (leading country); and the Economic Sustainability Index (fourth place). Its economy is structured around three pillars: sugar, export processing zones and tourism. Contrary to popular belief, the country has maintained a highly restrictive trade regime with its market relatively closed to imports. But its export sector has been kept fairly open by implementation of several instruments to segregate it from the import sector. Duty-free access was provided to all imported inputs, resulting in a competitive export sector; tax incentives were provided to firms operating in the Export Processing Zone and the labour market for the export sector has been segmented from the rest of the economy, with greater flexibility in the zone regarding overtime payments as well as the discharging of workers. This, combined with the country's ethnic diversity, which has attracted investment from the Far East, a stable political environment and sound macroeconomic policies, has resulted in a competitive trade environment.

Source: Economic Commission for Africa, 2003.

23. The words of the High-Level Panel on Financing for Development (the Zedillo report) are pertinent to this issue. The authors argued that a priority for any development round of the World Trade Organization would need to consider how to legitimate time-bound protection of certain industries by country in the early stages of industrialization:

> "However misguided the old model of blanket protection intended to nurture import substitute industries, it would be a mistake to go to the other extreme and deny developing countries the opportunity of actively nurturing the development of an industrial sector."[5]

VII. Focusing on export diversification

24. During the 1990s, it became commonplace to argue that trade has a central role in providing the basis for economic growth and development. Throughout the period of structural adjustment, the policies promoted by the international financial institutions were designed precisely to that end, to increasing the "openness" of African economies to trade. According to the World Development Indicators of the World Bank, based on trade as a percentage of GDP, African economies are already surprisingly open. This trade share is 62.2 per cent in Sub-Saharan Africa, actually above the world average of 57 per cent, and far above the average for Latin America and the Caribbean (35.9 per cent). Bearing in mind that informal trade (that is, not registered trade) is generally considered to be much higher in Africa than comparable regions, and the fact that the continent has been adversely affected by the deterioration in the terms of trade, Africa's degree of integration into the world economy is thus much higher in this respect than is commonly thought.

25. Africa's minor role in world trade essentially reflects Africa's small GDP, rather than a lack of openness per se. Contrary to popular belief, the volume of trade is not the primary challenge facing African policy makers. Rather, the issue is a qualitative one: although the volume of trade is only loosely related to economic success, econometric investigations reveal that the share of manufactured goods in total exports is a more significant indicator of economic success. Manufacturing is also one of the main vehicles for technological development and innovation, and an economy with a higher share of manufacturing in total value added is generaliy less exposed to external shocks, price fluctuations, climatic conditions and unfair competition policies.

26. It is not true that in Africa there has been no progress towards export diversification over the last two decades, it is simply that progress has been insufficient (see table 1 below). A few African countries, such as Uganda and Kenya, have increased exports by diversifying into non-traditional exports, typically, vegetables, fruits and flowers. Such achievements are not to be gainsaid. But particularly relevant are the experiences of a small number of countries that have successfully promoted manufacturing exports, such as Tunisia and Mauritius. Although no particular experience can be directly extrapolated, these cases can still provide useful contrasts and lessons for other developing countries in Africa.[6]

Table 1
Manufacturing measured as a percentage of export trade for selected African countries (1980-2001)

	1980	*1990*	*2001*
Algeria	0.3	2.6	*2.3*
Angola	12.9	0.1	-
Benin	3.4	-	6.2
Cameroon	3.8	8.5	4.7
Comoros	23.8	-	*8.2*
Côte d'Ivoire	4.7	-	*14.5*
Egypt	10.9	42.5	32.7
Ghana	0.9	-	15.8
Kenya	12.1	29.2	*20.8*
Mauritius	27.4	65.8	74.2
Morocco	23.5	52.3	*64.1*
Nigeria	0.3	-	*0.2*
Senegal	15.1	22.5	28.8
South Africa	18.2	21.9	59.4
Togo	10.6	9.1	49.7
Tunisia	35.7	69.1	*77.0*
Uganda	0.7	-	6.9
Zambia	16.0	-	12.7
Zimbabwe	35.8	30.9	*28.1*

Note: figures in italics refer to data for 2000.
Sources: World Bank, *World Development Indicators (2003)* and UNCTAD, *Handbook of Statistics (2003)*.

27. The experience of the more successful countries reveals that trade liberalization alone is unlikely to enable them to emerge as exporters of manufactured goods. In developing countries, which are poor in terms of infrastructure development, sound macroeconomic policies, openness and fiscal incentives are not enough. A concerted effort to focus on strengthening the supply-side response of African industries is therefore required. However modest its beginning, Governments need to develop a coherent industrial policy and, within it, articulate a well-defined role for the export sector. Providing some policy recommendations to this end is the main theme of the present report.

VIII. Identifying areas for policy action to strengthen trade performance: the Trade Competitiveness Index

28. Given the above challenges, a trade competitiveness index (TCI) for African countries is hereby introduced. The TCI is meant primarily as a tool for policy makers in Africa to enable them to identify where the competitive shortcomings of their countries lie in comparison to other African countries. The TCI is computed for a sample of 20 African countries. To draw valuable lessons from an intercontinental comparison, the sample includes: eight non-African countries; four Asian countries (India, Malaysia, Thailand and Indonesia); and four Latin American countries (Bolivia, Chile, Argentina and Brazil); all developing countries that had GDP per capita levels similar to African levels in the 1960s, but have since followed various developmental paths.

29. Using a total of 34 indicators, the TCI is divided into three components, each capturing a different dimension of trade competitiveness: a trade enabling index, reflecting the overall economic and political environment's conduciveness to trade; a productive resource index, measuring the availability of direct inputs to production, such as land and labour force; and an infrastructure index, measuring the availability of indirect inputs such as a physical infrastructure that enables the movement of goods and services. These three sub-indices received equal weighting to comprise the TCI, which in turn allows the identification of the most competitive countries in terms of trade as well as identification of bottlenecks to an improved trade performance.

30. The results reveal a number of important findings:

(a) Despite the usual notion that African countries are resource abundant, they have a relatively low score on the productive resource index. This can be explained by looking at the components of the index, which include data not only on natural resources, such as the renewable water resources, but also created resources such as the quality of the labour force. The policy implication is that more resources need to be dedicated in Africa to improving the quality of created assets and human capital;

(b) The analysis reveals that there is a positive relationship between the trade competitiveness index and index of export concentration, which reflects the degree of product diversification in the export structure of the country concerned. This implies that countries that are competitive tend to have lower export concentration and rely on a larger number of products for their export revenues. The challenge for African policy makers is providing the context for upward diversification, towards higher value-added goods and services with increased technological content;

(c) Variations in overall competitiveness are mostly driven by the trade-enabling environment, which captures the macroeconomic and political environment as well as policies conducive to trade. Crucially, the trade enabling index includes variables reflecting the extent to which a country has achieved good governance, in terms of government stability, bureaucratic quality and democratic accountability. It is not coincidental that the top scoring African countries in terms of a trade enabling environment are also the top scoring countries in terms of overall trade competitiveness. These countries have managed to diversify most and have the highest export of manufactured goods relative to GDP. Mauritius, South Africa,

Tunisia, Egypt and Morocco are the most competitive African countries, while Nigeria, Mali, Zimbabwe, Malawi and Ethiopia are the least competitive.

31. The comparison with the selected non-African countries reveals that labour force indicators are key determinants of trade competitiveness on a global scale: seven of the eight non-African countries dominate the overall trade competitiveness index due largely to a well-educated and healthy labour force. This suggests that while a pro-trade environment is critical, global trade competitiveness and, ultimately, greater integration into the world economy require increased efforts in educating the African people and improving their health.

IX. The fundamental role of an active employment policy

32. Equally essential, however, is job creation. There is no point in investing heavily in human capital through education and training schemes if no job opportunities are available. Regardless of the merits of policies of trade liberalization, the fact remains that in many African countries the reduction of tariff and non-tariff barriers has been associated with a sharp fall in employment, as consumers have switched from non-traded goods to imports. Policies are urgently needed to address the problem of employment generation, possibly the most pressing problem in Africa. One possibility, recently recommended by the United States Commission on Capital Flows to Africa, is to provide more active support for small and medium-size business. In recognition of their importance as creators of employment, and as potential seedbeds for technological acquisition and innovation, all industrialized nations offer financial and technical support to their small and medium-size businesses. Africa desperately needs to create national small business institutions, similar to the United States Small Business Administration, to coordinate comprehensive programmes of support to these enterprises. These small business institutions could provide streamlined access to: (a) assistance programmes that address the technical and managerial weakness of small and medium-size businesses; (b) financing programmes including loan guarantees, equipment and export finance; (c) coordination of linkages with multinational corporations; (d) basic information on market and export opportunities; and (e)"one-stop-shopping" for licensing, taxation and other regulatory matters.

33. For the poorest of the poor, these policy measures, which take time to implement, may not have a sufficiently direct impact on their situation. It is unrealistic to expect these policies, on their own, to make a significant dent in unemployment among the poor and unskilled. In such circumstances, State financing could be provided for public works projects (for example road building or irrigation works), especially during periods of economic recession. There are a wide range of public works programmes already in place in African Member States (see box 3 below). In Ghana, for instance, youth are employed in afforestration and urban sanitation programmes.[7] Although the schemes have met with varying degrees of success, a number of the countries in the region (for example Kenya and Ethiopia) have also implemented food for work programmes. These kinds of programmes need to be improved upon and should be extended as far as resources allow.[8]

Box 3
The Tunisian 21-21 Fund: tackling unemployment

In Tunisia where unemployment stood at 15 per cent in 2001, the Government has undertaken a range of measures, the most significant of which was the launching of the National Employment Fund (popularly known as the "21-21 Fund") in January 2000. Aimed at facilitating the integration of job seekers, particularly the young, into the labour market, its beneficiaries include all categories of the workforce, including unskilled workers.

The Fund uses a multi-pronged approach to address the unemployment issue. Its internship programme for disadvantaged youth under 20, most of whom have limited access to companies for various social and economic reasons, matches them with enterprises able and willing to provide training for a specified period of time and includes their transportation costs. For those with low educational attainment, training is provided to make them employable, and employment is eventually provided within the context of various public benefit works. University graduates can participate in advanced training programmes in computing and telecommunications; those with liberal arts backgrounds are trained in various fields, including pre-school teaching and participation in the national adult literacy programme. The most successful of the initiatives by the Fund is an aid programme to help potential entrepreneurs establish small businesses in collaboration with the Tunisian Solidarity Bank.

The Fund also provides financial assistance to the 35 public and private training centres by bearing the cost for the establishment of micro-enterprises and the set-up of incubators for companies. Approximately 204,000 people benefited from the Fund between January 2000 and November 2002; emphasis has been put on enterprise creation in areas where the economic fabric is weak as well as on training elsewhere.

Most of the beneficiaries have since established their own businesses or have found stable employment. The Fund makes its credit line available to guarantee commercial bank loans to programme graduates who start their own projects. The creation of the National Employment Fund follows the success of the National Solidarity Fund, whose primary objective is poverty alleviation.

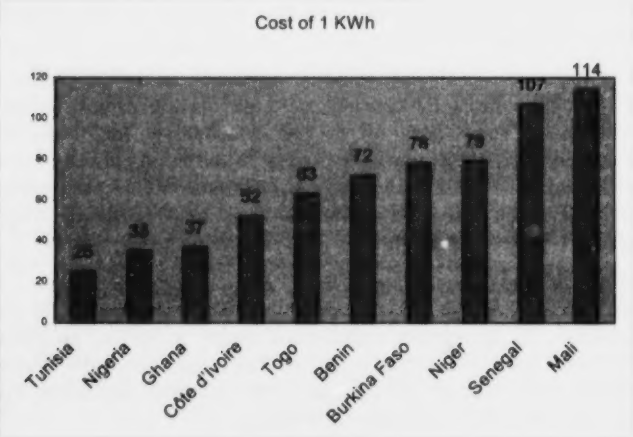
X. Confronting supply-side problems

34. To ensure greater export diversification, African countries need to identify key domestic obstacles to international business development and take appropriate measures to improve local conditions for business. Firm level surveys in countries including Senegal, Ghana, Uganda and Kenya have identified infrastructure constraint as a significant factor affecting export development. African countries

require good infrastructure facilities in order to compete effectively in the international market. Although many types of infrastructure, roads, air transport, railways and ports, are important, the present report highlights the energy sector and its role in facilitating export diversification.

35. Despite Africa's enormous potential for producing energy, many African countries are plagued by substandard infrastructure in this field. The African power sector is small in comparison with its geographic size and population. Africa's electricity generation was 479.8 terawatt-hours in 2001, representing only 3.1 per cent of world electric production — and even this very limited supply is prone to repeated failure as manifested by power rationing, brownouts and blackouts. A number of problems have reduced the ability of the sector to power Africa's export diversification drive. These include high system losses in transmission and distribution; unsustainable tariffs; climatic factors; poor technical, managerial and financial performance; and inefficient government intervention. Comparisons of unit costs between Tunisia, a country with an efficient State-owned energy sector and a well-diversified economy, and West Africa reveals unit energy costs that are more than twice as high in countries like Togo and Côte d'Ivoire, and more than four times higher in Senegal and Mali (see figure 3 below).

Figure 3
Cost of 1 kilowatt-hour in Tunisia in comparison to selected West African countries



36. The energy sector has not been able to attract the foreign direct investment (FDI) that many analysts consider as necessary to upgrade Africa's power network. Foreign direct investment in the power sector in Sub-Saharan Africa between 1990 and 1998 was $363.2 million, representing only 6 per cent of all infrastructure FDI flows to the region. Energy schemes involving foreign private investors have sometimes produced poor results, or provided services at an excessively high cost, an outcome obviously prejudicial to the poor.[9] It is worth recognizing, however, that the choices for African Governments are frequently difficult. On average, privatized

utilities have proved more efficient in extending coverage of services like water or electricity connections. But are host Governments prepared to accept tariff increases, with all the distributional consequences entailed, in return for higher coverage rates? For instance, a study of the options for Nairobi's water system by British company Halcrow Group in June 2001 concluded that a 40 per cent price increase would be required if any improvements to the capital's infrastructure were to be funded. Given the tight budgetary constraints under which the Governments of most least developed countries operate, is reform of the existing public sector services feasible over the short to medium-term? Moreover, as a recent United Nations report reminds us:

> "The growing tendency to leave even least developed countries to the mercy of the capital market to build power plants and upgrade their telecommunications facilities has led to growing under-provisioning of investments in this sector in the least developed countries. Not all least developed countries can access foreign direct investment in these areas or access it with sufficient urgency to meet their immediate demand for power or water."[10]

37. To achieve a better utilization of power resources, a number of policy guidelines are recommended:

(a) Although not always the case (see the Tunisian example above), direct government control of the power sector has often produced disappointing results. One policy option is the transformation of power companies into independent and self-reliant corporations that can still be under government ownership. The success and efficiency of power companies will, however, depend on the extent to which they incorporate economic considerations in their operations;

(b) African countries should promote energy efficiency. Energy efficiency reduces operating costs, enhances economic efficiency and improves the productivity and international competitiveness of energy consuming companies. An energy efficient programme should include promotional and information dissemination activities to increase energy conservation awareness and incentives to increase the ability and willingness of energy users to implement energy conservation measures;

(c) Rural electrification programmes can also help promote the development of the energy sector and ensure greater export diversification. African Governments could promote rural electrification by playing a more aggressive and transparent role of promoting smaller village-based energy systems;

(d) The increased reliance on private sector involvement in the energy sector requires good and credible regulation. Efficient regulation should prevent abuse of monopoly power and limit price increases to levels that are compatible with profit margins. To perform effectively, it is essential that regulatory bodies be independent, distanced from political, corporate and other pressures;

(e) Finally, the promotion of regional integration in energy services would help promote the development of the energy sector in Africa. A study by the Southern African Development Community and the World Bank suggested that an estimated saving of $1.6 billion over 10 years could be realized through optimal use of regional electricity resources and installation in Southern Africa. The development of regional markets in energy would require common regulations for international exchanges.

XI. Towards an effective strategy for trade facilitation

38. Trade facilitation has been defined both narrowly and broadly. The World Trade Organization, the United Nations Conference on Trade and Development (UNCTAD) and OECD have restricted the scope of their definitions to the relatively free movement of goods, and, more specifically, to customs procedures and technical regulations that can impair or delay trade. The World Bank, however, takes a broader approach to its trade facilitation programme, which covers reforms in customs, regulatory frameworks and standards. In the present report a broader definition of trade facilitation is forwarded.

39. Many African countries acknowledge the benefits that could arise from improved trade facilitation and the economic gains that could be generated, including: promotion of trade and investment; lower transactions costs; improved revenue collection; and better allocation of resources. In this regard, efforts need to be intensified in order to improve the state of trade facilitation in the African continent. This entails the strengthening of Africa's infrastructure network and harmonizing and implementing regional facilitation instruments, including customs and administrative procedures.

40. The generally low density and quality of transport infrastructures in Africa raises transactions costs for trade substantially. Transaction costs are higher in landlocked African countries, impeding the competitiveness of these countries. The ability of landlocked countries to trade relies on the existence of efficient and easily accessible transit corridors. This implies that, in addition to their own infrastructures, landlocked economies need good and reliable infrastructures in neighbouring countries over which they have little control.

41. In addition, efforts have been made at regional, subregional, multilateral, bilateral and national levels to facilitate trade in Africa. The Common Market of Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), the Economic Community of West African States (ECOWAS), the West African Economic and Monetary Union (UEMOA), and the Economic and Monetary Community of Central Africa (CEMAC), among other regional economic communities, have worked to harmonize trade facilitation procedures in their subregions and to facilitate transport links. Cameroon has signed conventions on the transportation of goods by land with its landlocked neighbours, Chad and the Central African Republic. The Tunisia Trade Net, an automated system introduced in 2000, which provides a one-stop trade documentation-processing platform connecting the principal actors of international trade, is expected to reduce shipment clearance from an average of 8 to 3 days and to result in a productivity gain of 7 per cent. Several African countries are also using the Automated System for Customs Data introduced by UNCTAD.

42. At the multilateral level, trade facilitation was placed on the agenda of multilateral trade negotiations and the World Trade Organization at the first Ministerial Conference of the Organization, held in Singapore in December 1996, as one of the four "Singapore issues" despite strong opposition from developing countries, including those from Africa. The opposition and concerns of many developing countries to agreeing to develop a "multilateral framework" on trade facilitation was not due to lack of appreciation of the importance and role that such a framework could play in promoting development, but mainly to the lack of adequate

human, financial and technical capacity to deal with the issue in a multilateral environment.

XII. Mobilizing domestic resources, a continuing priority

43. Faced with insufficient external resources, it is a clear priority for African Governments to promote domestic resource mobilization. Savings and investment to GDP ratios remained low during 2001 (the latest year for which data are available), and generally well below the levels compatible with achieving the Millennium Development Goals on growth and poverty reduction. No less than 27 countries in the region had savings ratios below 10 per cent in 2001, indicating a huge shortfall in the resources needed to catalyse development. Although private investment has increased, investment rates have yet to recover from the collapse that took place during the processes of structural adjustment. At that time, public investment fell sharply, and it has not been adequately compensated for by rising private investment. Given the importance of complementarities and synergies between public and private investment, what is clearly required is a recovery in public sector investment in essential infrastructure, health and education.

44. The potential role of African capital markets is also of vital importance. There is a long-standing debate over the best way of financing the corporate sector, with some authors stressing the difficulties associated with an excessive dependence on stock market financing in poor developing countries.[11] The experience of Africa bears out some of these criticisms. Although small by global standards, Africa's capital markets have shown considerable growth over the last decade. Of the 17 out of 18 African stock markets for which data is available, market capitalization as a percentage of GDP rose significantly in 16 countries between 1990 and 2002. Against the poor performance of developed country stocks over the last two years, many African stock markets have performed relatively well, reflecting Africa's partial insulation from global financial shocks due to the continent's low level of integration into the world economy. Large increases in the value of stocks traded have occurred primarily in the regional powerhouses, Egypt, Morocco and South Africa.

45. Overall, however, African capital markets remain marginal in the global and emerging markets: their share of world market capitalization fell from 1 per cent in 1992 to 0.7 per cent in 2001. This lacklustre performance is the result of external and institutional constraints that limit the growth of African stock markets. Political instability and patchy macroeconomic performance block the development of vibrant capital markets, and stock market infrastructures, including settlement and trading mechanisms, are often poorly developed. Markets frequently suffer from severe informational deficiencies and ineffective regulatory regimes.

46. In view of the relatively marginal role of African stock markets in financing the productive system, strengthening the domestic banking system is clearly a priority area. Despite the pressure over the last two decades on African countries to liberalize their financial sectors, performance of the banking sector has not significantly improved, and portfolios continue to be dominated by non-performing loans and excess liquidity. This performance is often contrasted with the relatively dynamic performance of the informal financial system, which has expanded mainly in response to the financial requirements of informal sector businesses. Gaps in

financial services have also emerged. A number of authors have talked of Africa's "missing middle", in the sense that the needs of many potential borrowers are either too large for the informal lenders or too small for the formal lenders.[12] And none of this helps the cause of export diversification. Policy makers urgently need to address the issue of how to reform the banking sector so that it may fulfil its social and developmental function adequately.

XIII. The importance of fiscal reform against a backdrop of trade liberalization

47. The financial dependence of African Governments on taxation from trade raises the problem of how to maintain the fiscal base and preserve macroeconomic stability in the face of trade liberalization. In other regions, this issue is receiving increasing attention from policy makers. For example, all the countries in Latin America, except for El Salvador, have either passed tax reforms or are in the process of doing so.[13]

48. The issue is especially important for Africa. The overall tax base is excessively low. And taxes on international trade have been an important part of fiscal revenue in African countries where tax administration is inefficient. In Africa as a whole international trade taxes generated, on average, 28.2 per cent of total current revenues over the last decade; in Sub-Saharan Africa the share is 30.5 per cent. This compares to 0.8 per cent for high-income OECD countries, 11.5 per cent for upper-medium income countries, 18.42 per cent for lower medium-income countries, and 22.5 per cent for low-income countries. In addition, while the data show a decreasing dependence on trade taxes worldwide, in Africa the share has fluctuated around a flat or even slightly increasing trend.

49. Trade liberalization is therefore a potential source of fiscal instability for African countries. Revenue-collecting concerns are often mentioned as a reason for resistance to trade policy reform in low-income countries. Despite this, some components of trade liberalization packages are likely to have a positive impact on revenues. These include the replacement of non-tariff barriers by lower tariff equivalents and the elimination of tariff exemptions and trade-related subsidies. Moreover, tariffs cuts can also increase total revenues if they generate a sufficiently large increase in trade flows. Trade liberalization measures can also be combined with other tax and fiscal reforms to help buffer the revenue impact of trade liberalization.

50. Fiscal stabilization remains problematic for most African countries. Despite improvements in the second half of the 1990s, the average continental fiscal deficit (excluding grants) in 2002 and 2003 was around 7 per cent of GDP. The factors that determine fiscal deficits include macroeconomic and growth performance, shocks to the terms of trade and political factors. After controlling these determinants, the effect of trade liberalization on revenues and the fiscal deficit depends on the existing level of trade restrictions. When trade restrictions are initially very high, trade liberalization increases trade tax revenues and reduces the deficit. Conversely, when initial trade restrictions are low, further liberalization results in smaller revenues and a larger deficit, unless some appropriate policy response is implemented. Initial liberalization is therefore less likely to pose a fiscal problem than liberalization at later stages. Because African countries have already carried out trade liberalization during the 1990s they are likely to face significant revenue reductions as a result of further liberalization (see box 4 below).

Box 4

Economic partnership agreements and their fiscal implications

One of the most important policy initiatives in recent years has been the planned economic partnership agreements between the European Union and Sub-Saharan Africa. The agreements are an extension of the Cotonou Agreement with the African, Caribbean and Pacific countries, and were initially discussed for the first time in 2000. Despite new initiatives on the part of the European Union (such as the aforementioned "Everything but Arms" agreement), generally speaking the results from preferential agreements have been disappointing. For instance, over the first two decades of preferential access to the European Union market under the Lomé Accords, the exports of the African, Caribbean and Pacific countries to the European Union market fell from 6.7 per cent of world exports in 1975 to 2.7 per cent in 1995. There are, of course, explanations for this: most poor African, Caribbean and Pacific countries have been locked into patterns of exports based on primary exports whose share in world trade has been suffering a decline. Clearly, however, the concessions for the African, Caribbean and Pacific countries were not capable of offsetting this structural imbalance.

The economic partnership agreements initiative should thus be seen as a result of the growing frustration with preferential access agreements and a rethinking on the part of the European Union regarding trading policy towards the poorest developing countries. The planned establishment of free trade agreements with the European Union under the economic partnership agreements represents an enormous challenge to African countries. It will oblige them not only to liberalize their trade regime with the European Union completely, but also to instigate a whole number of institutional and regulatory reforms. This is seen as one of the most important benefits of the economic partnership agreements, instilling greater "discipline" in the process of institutional reform and locking Sub-Saharan countries into a reform programme, with the ultimate objective of making their economies more competitive internationally.

However, one particular area of concern is the impact of the economic partnership agreements on government revenues. Revenues from tariffs still amount to 2 per cent of GDP in the median Sub-Saharan country, and for some countries that figure reaches 4 to 6 per cent of GDP. For the countries most dependent on trade with the European Union, including the Central African Republic and Uganda, the loss of tariff revenue on imports could affect a very high percentage of total government revenue, reaching as much as 20 per cent.

The European Union is aware of this problem and has promised substantial financial help to aid industrial restructuring and compensate for the lost tariff revenues. Unfortunately, the precedent of the European-Mediterranean agreements, coupled with the relatively low level of funding provided by the European Union for the upgrading of the programmes in Northern Africa, does not provide the basis for much

optimism. African countries are aware that the European budget is already overstretched by the enlargement of the European Union and by numerous other commitments. The European Union may not, therefore, be able to meet its commitment of substantial economic support to finance the transition period. There are also concerns that any additional financial help could come attached with new conditionalities. These points explain in large measure the tepid reaction to the initiative of some African, Caribbean and Pacific countries and Sub-Saharan countries. Negotiations were originally scheduled to start from September 2003, but the Pacific islands argued that they would not be ready for negotiations until November 2004. West African representatives (UEMOA and ECOWAS) actually walked out of the initial negotiations in late 2003 and demanded an European Union aid commitment upfront before re-entering negotiations.

51. In general, the African countries that made the fastest progress on trade liberalization over the last 10 years saw a significant decrease in revenues from international trade taxes. But in some, including Morocco, Ghana, Tunisia and Senegal, this did not translate into higher deficits. Their experience suggests that policy responses might be used to buffer the negative fiscal impacts of trade policy reforms. Firstly, trade liberalization should be coordinated with measures on the revenue and spending side of the budget, including raising domestic indirect and direct taxes, strengthening tax administration and collection and improving the effectiveness of public spending. Secondly, a sound macroeconomic environment is critical to preventing fiscal distress during trade liberalization.

XIV. Conclusions: the overriding need for a strategic approach to trade policy

52. The progress that Africa has made in the last few years is evident in the information provided in the present report. After the disappointing economic performance of the 1980s and 1990s, we have witnessed a return to positive rates of per capita economic growth in most of the continent, with an acceptably good macroeconomic performance. However, those rates of growth are still well below the 7 per cent needed to fulfil the Millennium Development Goals. Moreover, the economic recovery is fragile, in some parts of Africa it is the result of better climatic conditions and harvests, something which obviously cannot be counted upon in the future. A number of political and military conflicts also continue to jeopardize the achievements of recent years.

53. We have argued that in order to consolidate improved economic performance, there are various long-term priorities that need to be addressed, the chief ones being higher rates of savings and domestic investment, greater investment in human capital and more dynamic export performance. We have attempted to signpost the way towards policies for strengthening the competitive capacity of the African economies. A more concerted effort on the part of African policy makers for promoting export capacity and facilitating structural diversification, through the adoption of a coherent industrial policy, is required. In the final analysis, this amounts to a reconsideration of the way in which Africa has, up until now,

attempted to achieve its integration in the world economy. This is implicit in the context of initiatives such as the New Partnership for Africa's Development, but in our view it is also something that needs to be spelled out more explicitly in the future.

54. Despite the main argument presented in the present report, that, in the final resort, successful export promotion and structural change is dependent upon African Governments themselves, it must be recognized that for most African countries the resource requirements for diversification are beyond what could possibly be mobilized at the domestic level. In 2003, UNCTAD forwarded the need to work out a financing mechanism at the international level to help these countries develop a system of supply rationalization and diversification into other products in order to remove excess supply of these traditional commodities from the markets. According to UNCTAD, this might necessitate revisiting the concept of a "diversification fund" for African countries.[14]

55. In the meantime, there is an urgent need for Africa to achieve more tangible results through the multilateral trading system. The provision of a more accommodating international context for African exports, through the removal of trade impediments by the industrialized countries, is a sine qua non for African development. Policy makers in Africa and elsewhere should be aware of the urgency of these reforms. Over the short to medium term, African countries must place the emphasis on enhancing their countries ability to compete. Meanwhile, the door should not be closed through unreasonable limits on special and differential treatments required in aiding African countries to participate in the world economy. Over the long term, if the multilateral system of trade liberalization does not produce the desired results, despite credible efforts by African countries, then there is a very real possibility of a backlash against trade liberalization and the multilateral system. While trade liberalization has an important role in an overall strategy for economic and social development, the overarching principle must be adherence to policies that produce substantial results within a reasonable time frame. African leaders, and policy makers in the industrialized countries, should be conscious of the fact that time is running out.

Notes

[1] Fosu, Augustin Kwasi, Political Instability and Export Performance in Sub-Saharan Africa, *Journal of Development Studies*, vol. 39, No. 4.

[2] See www.allafrica.com.

[3] UNCTAD, *Economic Development in Africa: Trade Performance and Commodity Dependence*, New York and Geneva, 2004.

[4] World Bank, *Can Africa claim the 21st century?*, 2000.

[5] See A/55/1000, sect. 2.

[6] The case of Togo also stands out as a country that has apparently achieved a higher level of manufactured exports than the norm for Africa. However, this figure is principally the result of trans-shipment rather than the diversification of the economic structure towards manufacturing.

[7] See Kasirim Nwuke, "Youth employment in Africa", a background paper for the Youth Employment Summit, Economic Commission for Africa, September 2002.

[8] A good example of this kind of model is the Mahararastra Employment Guarantee Scheme in India, financed by a consumption tax in urban areas, which provides a minimum wage for rural workers during periods of economic hardship.

[9] On more than one occasion the World Bank has questioned deals reached between multinationals and African Governments. Such was the case regarding Enron's $800 million deal with the Nigerian Government. The World Bank and other foreign consultants were widely reported to have objected to the terms of the agreement on grounds that in haste to solve the electricity supply problem the Nigerian Government had offered terms that were exceedingly favourable to Enron (Economist Intelligence Unit, 2000).

[10] A/CONF.191/IPC/16, para. 59.

[11] Ajit Singh and Bruce A. Weisse, *Emerging stock markets, portfolio capital flows and long-term economic growth: micro and macroeconomic perspectives, World Development*, vol. 26, No. 4, 1998.

[12] See MacHiko Nissanke and Ernest Aryeetey, "Financial Integration and Development: Liberalization and reform in Sub-Saharan Africa", Routledge Studies in Development Economics, 1998.

[13] See Economic Commission for Latin America and the Caribbean, *Current conditions and outlook, Economic Survey of Latin America and the Caribbean 2002-2003* (E.03.II.G.111).

[14] UNCTAD, *Trade Preferences for LDCs: An Early Assessment of the Benefits and Possible Improvements*, New York and Geneva, 2003, and *The Least Developed Countries Report, 2002: Escaping the Poverty Trap*, New York and Geneva, 2002.